2. Financial Accounting

Starter Quiz ·

University Business Name: _____ Score: _____

1. The founders pay £20,000 into Nimbus for shares. That £20,000 is

   ☐ equity, a capital contribution, not income

   ☐ an asset with no other effect

   ☐ a liability to the bank

   ☐ income of the company

2. Nimbus pays £300 of wages in cash. Which entry is right?

   ☐ Cr Wages 300 / Cr Cash 300

   ☐ Dr Cash 300 / Cr Wages 300

   ☐ Dr Wages 300 / Cr Cash 300

   ☐ Dr Wages 300 / Dr Cash 300

3. Under the accrual basis, an expense is recorded in the month the cash is paid.

   ☐ True ☐ False

4. The income statement shows what Nimbus owns on 31 December.

   ☐ True ☐ False

5. In year 2 Nimbus repays £5,000 of its bank loan. Where does this appear?

   ☐ It does not appear

   ☐ Operating

   ☐ Financing

   ☐ Investing

6. Cash £51,400, inventory £3,600 and prepaid rent £9,000 are current assets; current liabilities are £5,550. What is the current ratio? Give one decimal place.

   _____

7. Nimbus's head baker has an excellent local reputation, so Nimbus records the reputation as an asset.

   ☐ True ☐ False

8. A debit entry always makes an account smaller.

   ☐ True ☐ False

9. Rent of £12,000 is paid on 1 October for one year, and the year ends on 31 December. What does this year's account show?

   ☐ an expense of £3,000 and a prepayment asset of £9,000

   ☐ nothing until next September

   ☐ an expense of £9,000 and an accrual of £3,000

   ☐ an expense of £12,000, because the cash has gone

10. Nimbus's revenue is £156,000 and its gross profit is £93,600. What is the gross profit as a percentage of revenue?

    _____ %

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Answers ·

University Business

1. **equity, a capital contribution, not income**

   Issuing shares raises cash (an asset) and share capital (equity). Calling it income is the classic slip; funders invest, customers buy.

2. **Dr Wages 300 / Cr Cash 300**

   Wages are an expense, which grows on the debit. Cash is an asset that falls, and a fall goes on the opposite side, the credit.

3. **False**

   The accrual basis records an expense when the benefit is used. The payment date only decides when cash moves.

4. **False**

   The income statement covers a period and ends in the profit for the year. What Nimbus owns on one date is in the statement of financial position.

5. **Financing**

   Repaying the amount borrowed is money back to a funder, so it is financing. Interest on the loan is usually shown under operating.

6. **11.5**

   $\dfrac{51\,400 + 3\,600 + 9\,000}{5\,550} = \dfrac{64\,000}{5\,550} \approx 11.5.$

7. **False**

   An asset must be controlled and come from a past event. Nimbus did not buy or build the reputation, and it cannot control it, so it is not recorded.

8. **False**

   Debit only means the left side. A debit makes an asset or expense grow, and makes a liability, equity or income account shrink.

9. **an expense of £3,000 and a prepayment asset of £9,000**

   Three months are used: $12\,000 \times \dfrac{3}{12} = 3\,000$ of expense. The other nine months stand as a prepayment asset.

10. **60 %**

    $\dfrac{93\,600}{156\,000} = 0.60$, so 60%. Sixty pence of every pound of sales is left after the cost of the bread.